

periodically updates and sends to all local government agencies that are subject to these requirements.

8. **Depreciation and Use Allowances Waiver** - See "Equipment and Other Capital Expenditures."
9. **Entertainment** - The cost of entertainment, amusements, social activities, and any incidental cost relating thereto, such as meals, beverages, lodging, transportation, etc., which are not directly a program need are not allowed.
- 10.a. **Equipment and Other Capital Expenditures** – Equipment and other capital expenditures with an acquisition cost of \$5,000 or less may be expensed at the time of purchase. Except as provided for under paragraph 10.b., in general, the cost of equipment and other capital expenditures with an acquisition cost exceeding \$5,000 is to be recovered through use of depreciation or allowances. (See the federal cost principles for a full discussion of the allowability of depreciation and use allowances.)

However, under certain circumstances not already described under 10.b., and only with a written waiver from DHFS obtained prior to making the purchase, equipment and other capital expenditures with an acquisition cost exceeding \$5,000 can be expensed at the time of purchase. In keeping with the policy that costs cannot be charged to programs more than once, depreciation associated with equipment that was expensed at the time of purchase is not allowable for reimbursement.

- 10.b. **Equipment and Other Capital Expenditures Exempt from Depreciation Requirements** – An expenditure on equipment or another capital item which exceeds \$5,000 and meets the following criteria does not need to be depreciated. An expenditure can be expensed at the time of purchase if the equipment or capital item:
 - is for the exclusive benefit of an eligible client in need of assistance to live independently in the community;
 - is owned and controlled by the client or by the family or guardian of the client who is intended to benefit from the purchase; and
 - does not become part of the purchasing agency's assets.

Examples of the types of equipment or other capital expenditures over \$5,000 which can be expensed at the time of purchase include: (1) a purchase or significant retro-fitting of a wheelchair; (2) construction of a wheelchair ramp to allow access to a client's home; and (3) remodeling of a client's kitchen or bathroom to allow a client to live independently in the community. (Effective for expenditures made on or after January 1, 1998.)

11. **Fines and Penalties** - Costs resulting from violation of or failure to comply with federal, state, and local laws and regulations are not allowable. Such costs include fines, penalties, settlements resulting from lawsuits, payments to terminated employees, cash settlements, damages, and back wages.

12. **Gifts and Donations to the Agency** - Gifts and donations to the agency shall be reported as permanently restricted net assets, temporarily restricted net assets, or unrestricted net assets based on the existence or absence of donor-imposed restrictions. The governing board of an agency may choose to designate its unrestricted funds for specific purposes. Information about restrictions and designations shall be provided in the financial statements or notes thereto. Unrestricted gifts and donations that have not been designated for a specific purpose at the time of receipt shall be used to offset expenses.
13. **Interest** - Interest is generally not an allowable expense under federal cost policies. However, DHSS policy allows interest for space costs if there is a direct relationship such as a mortgage or bond issuance, and DHSS allows financing costs for specific items of equipment such as leases. Interest expense incurred for newly-constructed buildings that are capitalized prior to the date of occupancy are allowable. Interest costs for unsecured loans, general operating expenses, working capital, retirement of other debt, or for any other purposes are not allowable. Professional and legal fees for financing are not allowable unless directly associated with an allowable interest expense for space costs or equipment.
14. **Legal Expense** - See the federal allowable cost guidance for discussion of the allowability of legal expenses. DHSS has additional policies on the allowability of legal expenses which are applicable for all agencies which receive financial assistance and some that are applicable only to Counties and 51 Boards.
- a. **All agencies** - The following policies are applicable to all agencies receiving financial assistance from the Department:
- Legal expenses incurred in the normal course of providing service to clients are allowable. Expenses incurred pursuing recovery on assignment of insurance benefits, filing claims in court, and processing sales of property deeded to the agency or county, etc. are allowable.
 - Claims for reimbursement of legal services must be based upon the compensation or salary authorized by the county board, the board of directors, or equivalent.
 - Time sheets or actual time logs must be used to substantiate reimbursement claims for legal services. This documentation will be examined during routine audits performed by DHSS and/or the independent auditor.
 - The cost of legal services acquired to sue a governmental agency are not allowable.
 - Legal fees associated with incorporating or organizing an agency are not allowable.
- b. **Counties and 51 Boards** - The following policies are applicable only to Counties and 51 Boards:
- The opinion of the Attorney General (OAG-33-81) concluded that county social service departments and 51 Boards may not contract with private attorneys to provide legal services nor may they directly employ attorneys on their staff who are solely supervised by that department. The authority to advise and represent county offices and agencies rests solely with the District Attorney or corporation counsels offices.